

# 2003 CALIFORNIA SCHOOL BOARDS ASSOCIATION

## *RISKS AND REWARDS OF MELLO-ROOS DISTRICTS*

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# MELLO-ROOS DISTRICTS - ONE TOOL

- ◆ STATE PROGRAM
- ◆ DEVELOPER FEES
- ◆ GENERAL OBLIGATION BONDS
- ◆ MELLO-ROOS DISTRICTS

# MELLO-ROOS ADVANTAGES

- ◆ ACHIEVE MORE THAN LEVEL 2 FEES
- ◆ MONEY RECEIVED UP FRONT
- ◆ ACCELERATE SITE TRANSFER
- ◆ REDUCE CASH OUTLAY FOR SITE
- ◆ CREATE ONGOING REVENUE STREAM FROM “SURPLUS” SPECIAL TAX

# MELLO-ROOS BUILDINGS BLOCKS

- ◆ FINANCING POLICIES REQUIRED

- ◆ Priority of Facilities
- ◆ Credit Quality
- ◆ Appraisal Standards
- ◆ Taxpayer Notification
- ◆ Tax Equity/ Maximum Tax Burden (2% rule of thumb)
- ◆ Priority School Attendance Zones

# MELLO-ROOS BUILDING BLOCKS (Cont'd)

- ◆ FINANCING TEAM
  - ◆ Financial Advisor
  - ◆ Special Tax Consultant
  - ◆ Bond Counsel/Disclosure Counsel
  - ◆ Architect
  - ◆ Appraiser
  - ◆ Underwriter

# IMPORTANCE OF FINANCING TEAM

- ◆ Optimal structuring to accomplish goals
- ◆ Protection from potential legal liability
- ◆ Better market acceptance of debt being sold

# SHORTFALL IN LEVEL 2 FEES AND STATE PROGRAM

- ◆ PRODUCES ABOUT \$5,000 PER HOME
- ◆ SHORTFALL OF ABOUT \$1,000 PER HOME TO MEET 50% STATE MATCHING REQUIREMENT
- ◆ NEED AN ADDITIONAL \$6,000 PER HOME TO FUND 100% OF SCHOOL'S COSTS
- ◆ REASONS FOR DEVELOPERS TO CONTRIBUTE MORE
  - ◆ Marketing advantage of neighborhood school
  - ◆ Willingness of School District to act as "lead" agency

# “LEAD” AGENCY CONCEPT

- ◆ SCHOOL DISTRICT BOARD FORMS MELLO-ROOS DISTRICT AS “LEAD AGENCY”
- ◆ OTHER PUBLIC AGENCIES CONSENT TO HAVING “LEAD” AGENCY FORM MELLO-ROOS DISTRICT TO FINANCE THEIR IMPROVEMENTS



## “LEAD” AGENCY CONCEPT (Cont’d)

- ◆ JOINT COMMUNITY FACILITIES AGREEMENTS
- ◆ MELLO-ROOS DISTRICT SELLS BONDS TO FINANCE IMPROVEMENTS OF ALL PARTICIPATING AGENCIES
- ◆ SCHOOL DISTRICT MUST HAVE LARGER SHARE OF FACILITIES FINANCED
  - ◆ Measure by sum of bond proceeds and special taxes

# LEAD AGENCY ISSUES

- ◆ PHILOSOPHICAL/POLITICAL QUESTIONS
  - ◆ Does School District want to be lead taxing agency taxing for more than schools?
  - ◆ Does School District want administrative responsibility of lead agency?
  - ◆ Is School District satisfied that legal risks have been minimized?
  - ◆ Establish basic parameters for Lead Agency role

# LEAD AGENCY ISSUES (Cont'd)

## ◆ ADVANTAGES

- ◆ Control timing of bond issues
- ◆ Greater say in priority of funding
- ◆ Share upside of more bond proceeds in favorable market
- ◆ Control of “surplus” special taxes

# LEAD AGENCY ISSUES (Cont'd)

- ◆ DISADVANTAGES

- ◆ Taxpayer complaints and scrutiny
- ◆ Increase in staff administration
- ◆ Increased legal risk
  - ◆ Seek indemnity from developer and participating agencies

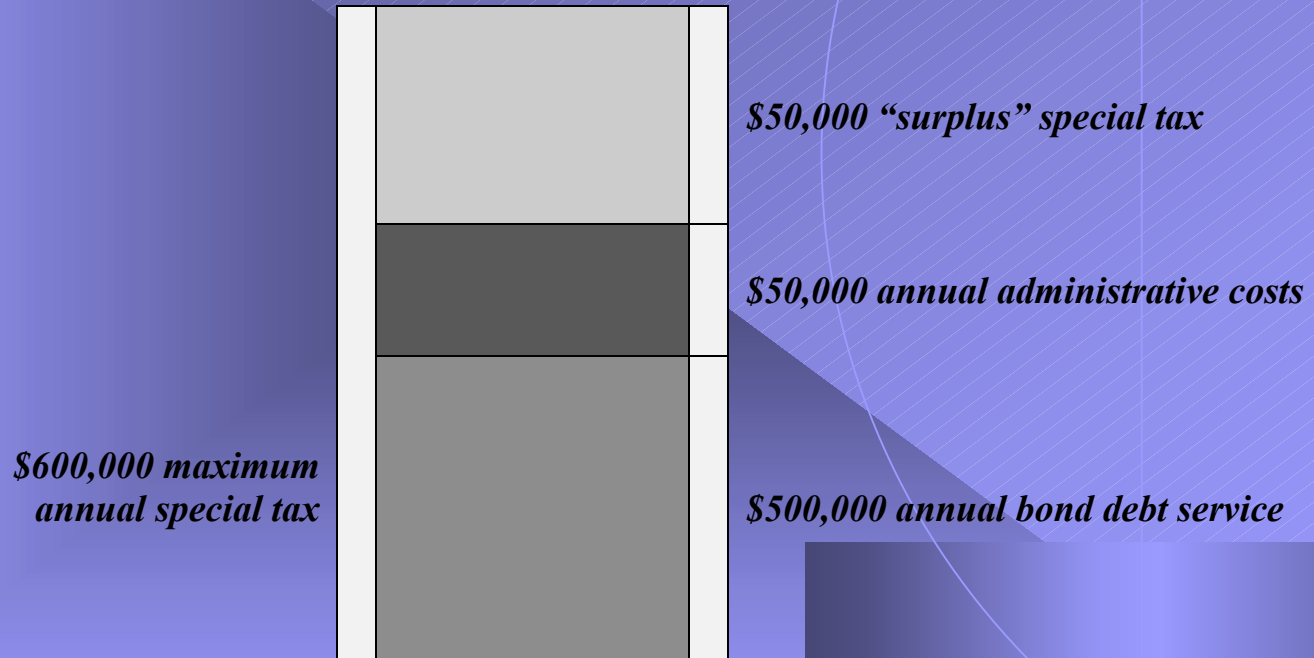
# WHAT IS SURPLUS SPECIAL TAX?

- ◆ DIFFERENCE BETWEEN MAXIMUM SPECIAL TAX AND BOND DEBT SERVICE PLUS ADMINISTRATIVE COSTS
- ◆ APPROXIMATELY 10% OF MAXIMUM SPECIAL TAX ANNUALLY

# WHAT IS SURPLUS SPECIAL TAX? (Cont'd)

- ◆ SURPLUS EXISTS BECAUSE BOND MARKET REQUIRES “COVERAGE”
- ◆ ACTUAL AMOUNT OF SURPLUS WILL VARY DEPENDING UPON
  - ◆ Delinquency Rate
  - ◆ Administrative Costs

# ILLUSTRATION OF SUPRLUS SPECIAL TAX



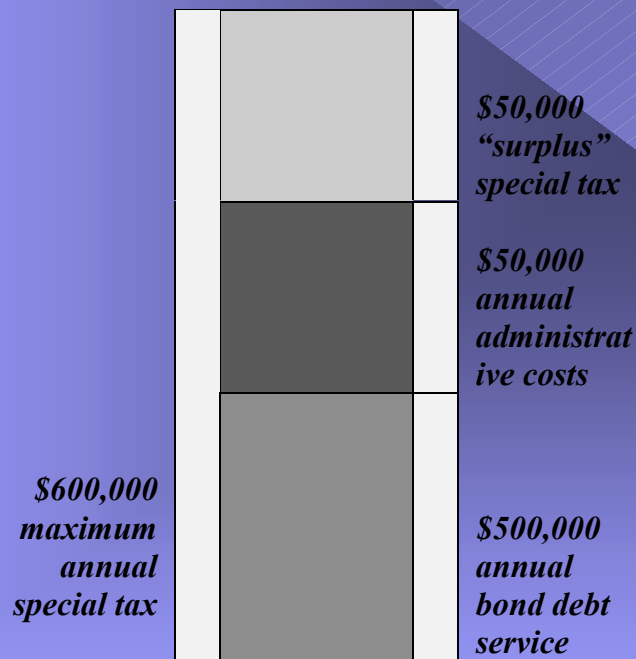
# COLLECTION AND USE OF SURPLUS SPECIAL TAX

- ◆ MAY COLLECT FOR FULL TERM OF SPECIAL TAX
- ◆ MAY APPLY TO FINANCE ANY ELIGIBLE FACILITY
- ◆ MAY USE FOR SITE ACQUISITION
- ◆ AMOUNT MAY INCREASE DUE TO REFUNDING
- ◆ CAN INCLUDE NEW CONSTRUCTION AND MODERNIZATION

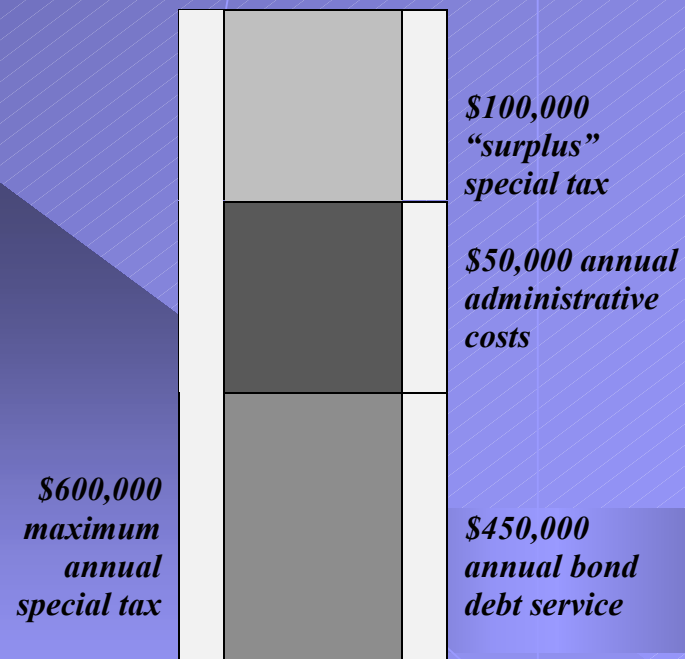


# COLLECTION AND USE OF SURPLUS SPECIAL TAX (Cont'd)

*Original Bond Issue*



*Refunding Bond Issue*



# LAND ACQUISITION

- ◆ SEEK DONATION OF LAND OR CONTRIBUTION AT COST
- ◆ ACQUIRE TITLE EARLY AND DEFER PAYMENT
  - ◆ Helps with State Funding
  - ◆ Locks in cost early to avoid escalating land prices

# LAND ACQUISITION (Cont'd)

- ◆ ACQUISITION STRATEGY

- ◆ Mello-Roos District issues promissory note to Developer to acquire site
- ◆ Developer transfers site immediately
- ◆ Promissory note paid from State funds and “surplus” special tax when and if received

# POST ISSUANCE ADMINISTRATION (or THERE IS NO FREE LUNCH)

- ◆ SET ANNUAL TAX LEVY
- ◆ CONDUCT REQUIRED FORECLOSURE PROCEEDINGS
- ◆ DISBURSE BOND PROCEEDS
  - ◆ To Developer
  - ◆ To other public agencies
- ◆ ANNUAL CONTINUING DISCLOSURE
- ◆ REBATE CALCULATION